

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SP-02 USIA-06 AID-05 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 IO-13 L-03 H-01 PA-01 PRS-01
AGRE-00 INT-05 /104 W
-----071268 252124Z /63

R 252010Z JUL 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 6420
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY GEORGETOWN
AMEMBASSY NASSAU
AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 3986

E.O. 11652: GDS
TAGS: EFIN, PDEV, EGEN, ETRD, JM
SUBJECT: JAMAICA'S IMPORT CEILING AND IMPLICATIONS FOR IMF PER-
FORMANCE TESTS

REF: A. KINGSTON 3326 B. KINGSTON 3729 C. KINGSTON 3730

1. BEGIN INTRODUCTION: THIS EMBASSY CONCLUDES THAT THE
RELATIVELY HIGH LEVEL OF JAMAICAN IMPORTS IN CY 1977 WILL
MAKE IT DIFFICULT, IF NOT IMPOSSIBLE, FOR JAMAICA TO MEET
THE OCTOBER 1977 AND MARCH 1978 IMF PERFORMANCE TESTS. WE
HAVE RECEIVED (AND REPORTED) A NUMBER OF ESTIMATES AS TO
JAMAICA'S IMPORT NEEDS, HOPES AND EXPECTATIONS FOR CY 1977.

-- THE TRADE ADMINISTRATOR, HADLEY BROWN, PROVIDED
US WITH FIGURES JUNE 23 SHOWING TOTAL LICENSED IMPORTS
IN CY 1977 AT \$US 941 MILLION. (REFTEL A).

-- THE PRIME MINISTER ANNOUNCED JULY 13 THAT
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IMPORTS WOULD NOT EXCEED \$US 880 MILLION. (REFTEL
B).

-- THE IMF REPRESENTATIVE IN KINGSTON PUT THE
FIGURE AT \$US 869 MILLION. (REFTEL C).

-- WE HAVE SUBSEQUENTLY BEEN INFORMED THAT

BANK OF JAMAICA GOVERNOR ARTHUR BROWN DOES NOT BELIEVE IMPORTS CAN EXCEED \$US 825 MILLION IF THE GOJ IS TO MEET IMF PERFORMANCE CRITERIA IN OCTOBER 1977 AND MARCH 1978. (SEE NOTE A, PARA 8 BELOW.)

THIS CABLE DESCRIBES THE ASSUMPTIONS UNDERLYING THE DIVERSE IMPORT ESTIMATES AND ANALYSES THE CONSEQUENCES ON IMF PERFORMANCE TESTS OF THE CURRENT AND PROJECTED IMPORT SITUATION. END INTRODUCTION.

2. TRADE ADMINISTRATOR HEADLEY BROWN BASED HIS CALCULATION OF IMPORT NEEDS FOR CY 1977 (\$US 941 MILLION) ON THE TOTAL AMOUNT OF LICENSES ISSUED AS OF JUNE 15, 1976 (\$US 590 MILLION) PLUS HIS OWN ESTIMATE OF MINIMUM ESSENTIAL IMPORT REQUIREMENTS IN EACH SECTOR FOR THE BALANCE OF THE YEAR. BROWN'S "MINIMUM ESSENTIAL" CRITERION WAS IN KEEPING WITH HIS MANDATE TO MAINTAIN IMPORTS AT THE "MINIMUM LEVEL REQUIRED TO MAINTAIN 1976 LEVELS OF ECONOMIC ACTIVITY." THE FIGURE REQCHED BY BROWN INCLUDED RAW MATERIAL IMPORTS ROUGHLY EQUIVALENT TO THOSE IN 1976. BROWN DID NOT CONSIDER FOREIGN EXCHANGE AVAILABILITY IN HIS CALCULATIONS. NOR DOES THE \$US 941 MILLION FIGURE INCLUDE ALL BAUXITE INDUSTRY IMPORT PAYMENTS, THE MAJORITY OF WHICH ARE NOT SUBJECT TO THE LICENSING REQUIREMENT. ADDING IN THESE PAYMENTS WOULD PUT THE TRADE ADMINISTRATOR'S FIGURE AT SUBSTANTIAL

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TIALLY OVER \$US 1 BILLION, A TOTAL WHICH JAMAICA COULD NOT HOPE TO COVER WITH ITS LIMITED FOREIGN EXCHANGE INFLOWS.

3. TRADE ADMINISTRATOR BROWN HAS PROVIDED US WITH MORE RECENT (AS OF JULY 12) LICENSE ISSUANCE STATISTICS AS FOLLOWS:

TOTAL LICENSES TO DATE: \$US 622 MILLION
OF WHICH

FOOD: 51 MILLION

CONSUMER GOODS: 31 MILLION
PETROLEUM PRODUCTS: 189 MILLION
RAWMATERIALS AND INTERMEDIATE
GOODS: 273 MILLION

CAPITAL GOODS: 80 MILLION

4. IN ADDITION TO THE IMPORTS REPRESENTED BY THESE LICENSES, THE BAUXITE INDUSTRY IS EXPECTED

TO IMPORT ABOUT \$US 187 MILLION WORTH OF GOODS IN
1977, ABOUT \$US 22 MILLION OF WHICH WILL BE, OR
HAVE BEEN, COVERED BY IMPORT LICENSES. THEREFORE,

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LAB-04 SIL-01 IO-13 L-03 H-01 PA-01 PRS-01
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THE NET ADDITIONAL IMPORTS (OVER LICENSES) FOR THE BAUXITE
INDUSTRY SHOULD BE ABOUT \$US 165 MILLION. ACCORDINGLY, TOTAL
CY 1977 IMPORTS TO WHICH THE GOJ HAS COMMITTED ITSELF TO DATE
ARE ABOUT \$US 787 MILLION. (SEE NOTE B, PARA 8).

5. THERE ARE THREE FIGURES BEING USED TO DESCRIBE THE CURRENT
IMPORT CEILING FOR CY 1977. THE PRIME MINISTER'S FIGURE OF
\$US 880 MILLION WAS REACHED BY "ROUNDING OFF" TO J\$ 800
MILLION (AT THE BASIC RATE) THE \$J 790 MILLION FIGURE
(\$US 869 MILLION) ARRIVED AT JOINTLY BETWEEN THE GOJ AND THE
IMF. HOWEVER, AS THE IMF REPRESENTATIVE IS QUICK TO POINT OUT,
THIS \$J 790 MILLION FIGURE (OR \$US 869 MILLION) IS INTENDED
TO COVER A NUMBER OF PURPOSES INCLUDING THE REDUCTION IN
ARREARS ON IMPORT PAYMENTS, ROYALTIES, INSURANCE, ETC.,
AND IS NOT LIMITED TO IMPORTS ALONE. THE BANK OF JAMAICA
HAS ESTIMATED THAT PAYMENTS OTHER THAN FOR CURRENT IMPORTS
WILL COST ABOUT \$US 44 MILLION AND THAT THEREFORE IMPORTS
SHOULD BE RESTRICTED TO \$US 825 MILLION (\$US 869 MINUS
\$US 44 MILLION). (SEE NOTE C)

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6. ACCORDING TO THE IMF REPRESENTATIVE, BANK OF JAMAICA GOVERNOR ARTHUR BROWN WAS EXTREMELY UNHAPPY WITH THE PRIME MINISTER'S ANNOUNCEMENT THAT THE IMPORT LEVEL WOULD BE INCREASED TO \$US 880 MILLION. MJND HAD RECOMMENDED STRONGLY THAT THE CEILING BE MAINTAINED AT \$US 825 MILLION. BOJ OFFICIALS BELIEVE THAT AN IMPORT FIGURE OF \$US 880 IN CY 1977 WILL LEAD TO AN INCREASE IN TRADE DEBT ARREARS AND A FURTHER REDUCTION IN THE NET FOREIGN RESERVE BALANCE. THIS, IN TURN, WOULD MEAN THAT THE GOJ WOULD BE UNABLE TO PASS THE OCTOBER AND MARCH IMF PERFORMANCE TESTS. IF ONE COMPARES THE BOJ ESTIMATE OF MAXIMUM ALLOWABLE IMPORTS IN 1977 (\$US 825 MILLION) WITH COMMITMENTS ALREADY MADE THROUGH JULY 12 (\$US 787 MILLION) THERE WOULD SEEM TO BE CONSIDERABLE JUSTIFICATION TO BOJ CONCERNS. THE GOJ INTENDS TO IMPORT ANOTHER \$US 26 MILLION IN FOOD ALONE DURING THE BALANCE OF CY 1977 IN ORDER TO ACHIEVE ITS "BARE MINIMUM" CY 1977 TARGET OF \$US 77 MILLION. (SEE NOTE D, PARA 8) (US AND OTHER INTERNATIONAL ASSISTANCE UP TO A TOTAL OF \$US 209 MILLION HAVE ALREADY BEEN TAKEN INTO ACCOUNT IN MAKING THESE PROJECTIONS.) MINIMUM ESSENTIAL FUEL IMPORTS ARE EXPECTED TO COME TO AN ADDITIONAL \$US 44 MILLION, ETC.

7. IN CONCLUSION, IT IS DIFFICULT TO SEE HOW THE GOJ WILL BE ABLE TO MAINTAIN ITS IMPORT LEVELS WITHIN THE RANGE WHICH THE BOJ FEELS IS NECESSARY IF IMF PERFORMANCE CRITERIA ARE TO BE MET. WITHOUT LARGER FOREIGN BORROWING, WHICH IS ITSELF RESTRICTED BY THE TERMS OF THE IMF AGREEMENT, IT WILL BE EXTREMELY DIFFICULT FOR THE GOJ TO MEET OR EVEN APPROXIMATE IMF PERFORMANCE CRITERIA. THE SITUATION HAS CAUSED THE IMF REPRESENTATIVE TO CONCLUDE THAT COME OCTOBER THE GOJ WILL EITHER BE DENIED FURTHER IMF ASSISTANCE OR BE FORCED INTO A MAJOR CURRENCY REALIGNMENT AND A NEW AND TOUGHER, ECONOMIC
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PROGRAM.

8. STATISTICAL NOTES

NOTE A. MOST JAMAICAN TRADE STATISTICS ARE CURRENTLY BEING CITED IN BASIC RATE JAMAICAN DOLLARS (\$J 1.00 -- \$US 1.10). BASIC RATE JAMAICAN DOLLAR STATISTICS DO NOT REPRESENT REAL JAMAICAN DOLLARS AND ARE THEREFORE ONLY USEFUL IN FOREIGN EXCHANGE BUDGET COMPUTATIONS, I.E., THEY CAN NOT BE USED TO DETERMINE EFFECTS ON MONEY SUPPLY OR BUDGETARY IMPACT. FOR EXAMPLE, THE PRIME MINISTER'S IMPORT CEILING OF \$J 800 MILLION AT THE BASIC RATE IS CONVERTED TO \$US 880 MILLION. SINCE

ONLY 35 PERCENT OF IMPORTS ARE ACTUALLY IMPORTED AT THE BASIC RATE AND 65 PERCENT AT THE SPECIAL RATE (\$1.00 - \$US .80), THE ACTUAL REAL JAMAICAN DOLLAR VALUE OF THE PRIME MINISTER'S IMPORT CEILING IS \$J995 MILLION RATHER THAN THE ANNOUNCED \$J 800 MILLION. TO AVOID THIS CONFUSION, ALL FIGURES CITED IN THIS CABLE ARE IN US DOLLARS OR INCLUDE US DOLLAR EQUIVALENTS.

NOTE B. THE FIGURE FOR TOTAL ESSENTIAL BAUXITE IMPORTS WAS SET AT US\$187 MILLION BY THE BANK OF JAMAICA AND THE IMF ON THE BASIS OF (A) DISCUSSIONS WITH THE BAUXITE INDUSTRY AND (B) PAST PERFORMANCE. THE TRADE ADMININ DATOR IS OF THE OPINION THAT THE FIGURE IS TOO HIGH. HE GAVE A THUMBNAIL ESTIMATE OF US\$100 MILLION AS PROBABLY BEING CLOSER TO THE MARK. FOR THE PURPOSES OF THIS CABLE, THE BOJ/IMF ESTIMATE IS BEING USED.

NOTE C. FOR THE PURPOSE OF THIS CABLE, IT HAS BEEN ASSUMED THAT IMPORT LICENSES PLUS BAUXITE IMPORTS WILL APPROXIMATE IMPORT PAYMENTS. IN FACT, THERE ARE THREE CATEGORIES: IMPORT LICENSES, IMPORT DELIVERIES, AND IMPORT PAYMENTS. IN 1976, DELIVERIES VERY CLOSELY APPROXIMATED LICENSES (ABOUT 95 0/0). IT IS ESTIMATED THAT PAYMENTS WERE SOMEWHAT LESS. HOWEVER IN 1977 PAYMENTS SHOULD BE BROUGHT REASONABLY CURRENT IF IMF CRITERIA ARE TO BE MET. THEREFORE, WE DO NOT
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ANTICIPATE THERE WILL BE A MAJOR DISCREPANCY BETWEEN LICENSES ISSUED PLUS BAUXITE IMPORTS AND IMPORT PAYMENTS.

NOTE D. JAMAICA NUTRITION HOLDINGS DIRECTOR DEXTER ROSE HAS PROVIDED US WITH BASIC FOOD IMPORT PROJECTIONS FOR THE BALANCE OF 1977 INDICATING THAT, AS FAR AS HE IS CONCERNED, THE IMPORT FIGURE WILL BE SUBSTANTIALLY HIGHER THAN THE \$US 77 MILLION CEILING SET BY THE PRIME MINISTER.
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